

U.S. House and Senate Notification
Friday, July 30, 2010

To: Congressional Health Staff

From: Amy Hall
Director, Office of Legislation
Centers for Medicare & Medicaid Services

Re: CMS Issues FY 2011 Policy and Payment Rate Changes for Inpatient Services in Acute Care Hospitals and Long-Term Care Hospitals Final Rule

Today, the Centers for Medicare & Medicaid Services (CMS) issued the final rule with comment period (“final rule”) establishing the fiscal year (FY) 2011 policies and payment rates for inpatient services furnished to people with Medicare by both acute care hospitals and long-term care hospitals. The final rule applies to approximately 3,500 acute care hospitals paid under the Inpatient Prospective Payment System (IPPS) and approximately 420 long-term care hospitals paid under the Long-Term Care Hospital Prospective Payment System (LTCH PPS), beginning with discharges occurring on or after October 1, 2010.

CMS is updating acute care hospital rates by 2.6 percent for inflation, a slight increase over the FY 2010 inflation rate. The final rule implements a 0.25 percentage point reduction from the update as required by the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (collectively, the “Affordable Care Act”). CMS will also apply an adjustment of -2.9 percentage points to recoup one-half of the estimated excess spending in FY 2008 and 2009 aggregate payments to hospitals. This adjustment is due to the effect of hospital coding practices under the Medicare-Severity DRGs that increased aggregate payments to hospitals, but did not reflect actual increases in patients’ severity of illness. Under legislation passed in 2007, CMS is required to recoup the entire amount of FY 2008 and 2009 excess spending from changes in hospital coding practices by FY 2012. CMS estimates that payments to general acute care hospitals for operating expenses in FY 2011 will decline by 0.4 percent, or \$440 million, compared with FY 2010 under the final rule, taking into account all factors that would affect spending.

Similarly, CMS is updating LTCH rates by 2.5 percent for inflation, but reducing the inflation update by 0.5 percentage points as required by the Affordable Care Act. Further, CMS will apply an adjustment of -2.5 percentage points for the estimated increase in spending in FYs 2008 and 2009 due to documentation and coding that did not reflect increases in patients’ severity of illness. CMS estimates that aggregate payments to LTCHs would increase by approximately 0.5 percent or \$22 million taking into account all provisions in the final rule that would affect spending.

The Medicare law requires hospitals to bill Medicare for all diagnostic services and admission-related non-diagnostic services provided in the hospital outpatient department on the day of admission or 3 calendar days prior to admission (one day for hospitals not paid under the IPPS) on a single claim. In the Preservation of Access to Care for Medicare

Beneficiaries and Pension Relief Act of 2010 (“Preservation of Access to Care Act”), Congress recently clarified that non-diagnostic services included on the inpatient claim is defined more broadly than in Medicare’s regulations. The final rule updates the regulations consistent with the Preservation of Access to Care Act.

The final rule adds 12 measures to the Reporting Hospital Quality Data for Annual Payment Update (RHQDAPU) set for reporting in 2011 to receive the full market basket update, and retires one current measure – Mortality for selected surgical procedures (composite).

The final rule is now on display and can be found under Special Filings at:
www.ofr.gov/inspection.aspx#special.

The CMS Press Release for the final rule issued today will be located at:
http://www.cms.hhs.gov/apps/media/press_releases.asp.

If you have any questions about this notification, please contact the CMS Office of Legislation at (202) 690-8220.